

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6123

BILL NUMBER: HB 1193

NOTE PREPARED: Nov 29, 2012

BILL AMENDED:

SUBJECT: Economic Development.

FIRST AUTHOR: Rep. Moseley

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides economic development incentives for facilities that produce wind turbines or wind turbine components using steel made in the United States. The bill establishes the following programs.

Hoosier Heritage Innovative Industry Loan Fund: The Hoosier Heritage Innovative Industry Loan Fund is established to provide wind turbine facility loans to qualified wind turbine facilities. The fund is administered by the Indiana Economic Development Corporation (IEDC), and it consists of appropriations from the General Assembly, transfers from the 21st Century Research and Technology Fund (21 Fund), and loan repayments.

Wind Turbine Facility Loan: The bill authorizes the IEDC to provide an interest-free loan for up to \$1 M to applicants who plan to establish a facility to produce wind turbines or wind turbine components using steel made in the United States. The term of the loan may not exceed 20 years.

Reduced Adjusted Gross Income Tax Rate: This bill authorizes the IEDC to grant a reduced Individual Adjusted Gross Income (AGI) rate or Corporate AGI rate to taxpayers who establish a qualified wind turbine facility. The reduced rate shall be 5% if the taxpayer is a corporation or 2.4% if the taxpayer is an individual or a pass-through entity. The taxpayer must meet the criteria established in the provision, and the IEDC must receive competing bids from at least two different applicants to establish a qualified wind turbine facility to grant a reduced AGI tax rate.

Enhanced Economic Development for Growing Economy (EDGE) Tax Credits: The bill grants to the IEDC the authority to award an enhanced EDGE credit to a qualified wind turbine facility. The enhanced credit may

not exceed 1.6% of the wages attributable to the applicant's project. The credit may not be provided for more than two years, and the credit is refundable. The applicant must meet the existing requirements to receive EDGE in addition to the requirements for the enhanced EDGE. Also, the IEDC must receive competing bids from at least two different applicants proposing to establish a qualified wind turbine facility.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and software programs to implement the modifications within the bill. Their current level of resources should be sufficient to implement the changes.

Indiana Economic Development Corporation (IEDC): The IEDC will incur additional expenses to administer the programs established by the bill. They must develop applications, evaluation criteria, and process the applications for these programs. The IEDC should be able to implement the changes with their current level of resources.

Hoosier Heritage Innovative Industry Loan Fund: This bill transfers \$1 M from the 21 Fund to the new Hoosier Heritage Innovative Industry Loan Fund. Money remaining in the fund at the end of the fiscal year will not revert to the General Fund.

Wind Turbine Facility Loans: The Hoosier Heritage Innovative Industry Loan Fund may provide interest-free loans for a term not to exceed 20 years. The maximum loan amount is \$1 M. A loan may be provided only to an entity that manufactures or fabricates wind turbines or wind turbine components using steel made in the United States. All wind turbine facility loans are subject to approval by the IEDC board.

Explanation of State Revenues: *Reduced AGI Tax Rate:* State AGI Tax collections would be reduced by the difference between the qualified wind turbine facility's tax liability computed at the current tax rate and their tax liability derived from the proposed tax rate. The reduced rate may only be applied to the taxable year the facility begins operations and the following taxable year. Revenue collected from the Individual AGI Tax and Corporate AGI Tax is deposited in the state General Fund.

An individual taxpayer may be granted a reduced tax rate of 2.4% instead of the current rate of 3.4% beginning in tax year 2014. The exact revenue loss from the reduced rate is indeterminable since there are other factors that may affect a taxpayer's tax liability. However, all other things being equal, the 2.4% tax rate would reduce collections by \$1 for every \$100 of taxpayer AGI.

A corporate taxpayer may be granted a reduced tax rate of 5% instead of the rate in effect beginning in 2014. Under current statute, the corporate tax rate will be 7.5% in FY 2014, 7% in FY 2015, and 6.5% beginning in FY 2016. The exact revenue loss of the reduced rate is indeterminable since there are other factors that may affect a taxpayer's tax liability. However, all things being equal, the 5% tax rate would reduce collections by \$2.50 for every \$100 of taxpayer AGI when the corporate rate is 7.5%; and \$1.50 for every \$100 of taxpayer AGI when the corporate rate is 6.5%.

The impact of the reduce tax rates could potentially begin in FY 2015.

Enhanced EDGE Tax Credits: Under current law, a taxpayer may be granted an EDGE credit for up to 100% of the incremental income tax withholdings attributable to the jobs created or retained by a project. The exact

credit amount is determined by the IEDC. This bill allows the IEDC to award an additional enhanced EDGE credit equal to 1.6% of the incremental amount of taxable wages that are attributable to certain wind turbine manufacturing projects. The taxpayer must meet the following conditions to receive an enhanced EDGE credit:

1. The facility manufactures or fabricates wind turbines or wind turbine components using steel made in the United States.
2. The average wages paid to a new employee must exceed the average wage of the county the applicant proposes to establish the qualified wind turbine facility by at least 10%.
3. The applicant meets all the other requirements to be awarded a standard EDGE credit.

For manufacturing projects, the average amount of EDGE credits offered by the IEDC was \$0.86 M between 2000 and 2011. Assuming the credit was derived from 100% of the incremental withholding, the estimated incremental amount of wages would be \$25 M. The estimated average enhanced EDGE credit amount per project would be approximately \$0.40 M. The total forgone revenue beginning in FY 2014 depends on the amount of qualified wind turbine facilities and the amount of credits approved per project by the IEDC.

The enhanced EDGE credit may only be awarded for two years. It is a refundable credit. The enhanced EDGE may be applied to tax liabilities for Individual AGI, Corporate AGI, Financial Institutions, and Insurance Premiums Taxes. Revenue collected from those taxes is deposited in the state General Fund. The revenue to the state General Fund would be reduced by the amount of the credits.

Background Information - 21 Fund: The 21 Fund was created in 1999 to provide grants or loans to companies engaged in the commercialization of new technology and creating high-wage jobs in Indiana. In FY 2012, the 21 Fund made investments in five companies totaling \$3.45 M. Those investments also attracted \$21.8 M in private investments. The 21 Fund had a balance of \$35 M as of September 30, 2012.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; IEDC, *Economic Incentives and Compliance Report*, June 30, 2012; *21 Fund Annual Report* (2011-2012); State Budget Agency Auditor's Database.

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